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**UNFPA – Internal audit and investigation**

# United Nations Population Fund

## Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2017

**Addendum**

## Annual report of the Audit Advisory Committee, 2017

# Annual report of the Audit Advisory Committee

2017

United Nations Population Fund

Audit Advisory Committee (AAC)

2017 annual report to the Executive Director

## I. Purpose

1. This report is addressed to the Executive Director of UNFPA, and provides a summary of the activities and advice of the Audit Advisory Committee ("the Committee") of UNFPA during 2017. It is submitted pursuant to item 14 of its terms of reference approved in 2014, and in accordance with paragraph 25 (c) of section IV, subsection I of the UNFPA revised oversight policy.

## II. Audit Advisory Committee activities in 2017

2. *Members of the Audit Advisory Committee*. Committee members are appointed for three years, renewable once. Committee members possess expertise in risk management, internal control, oversight, governance, financial management and reporting, ethics, investigation, internal audit, evaluation, and development and programme matters. The members of the Committee who joined in 2017 were Mr. Ariel Fiszbein (Argentina), Mr. Edward Ouko (Kenya), Ms. Enery Quinones (United Kingdom) and Mr. Louis Wong (Australia). After the resignation of Ms. Mary Ann Wyrsch (USA) early in the year, the seat remained vacant through 2017, with the intention to fill the vacancy in 2018. Ms. Quinones was elected Chairperson of the Committee in June 2017. All Committee members are external to UNFPA, and are independent of its management.

3. *Meetings*. The Committee held its inaugural meeting during 21-24 March 2017; it was devoted to an induction of the new Committee members to UNFPA, its mandate, structure and activities. During the meeting, the Committee also held a private video conference with Mr. Verasak Liengsririwat, former member and Chairperson of the Committee for 2016. Two further meetings were held during 19-21 June and 1-3 November 2017. Individuals invited to relevant sections of the in-person meetings included, among others: the Deputy Executive Director (Management); the Deputy Executive Director (Programme); programme and operational senior management; the Director, Office of Audit and Investigation Services (OAIS); the Director, Evaluation Office; the Director, Division for Management Services; the Ethics Adviser; the Legal Advisor and the representatives of the Board of Auditors. The Committee also had private meetings with the Director, OAIS; the Director, Evaluation Office; the Ethics Adviser; and representatives of the Board of Auditors.

4. To allow members of the Executive Board to have the opportunity to ask questions on the report of the Committee for the year 2016, Mr. Liengsririwat, as Chairman of the Committee for 2016, participated in May 2017 via video conference in the informal meeting of the Executive Board on the UNFPA audit and investigation activities for the year 2016.

5. *Terms of reference*. The Committee members reviewed its terms of reference, which had been last approved in November 2014. As a result thereof, the Committee proposed to change its name to 'Oversight Advisory Committee' to reflect better its wide-ranging mandate. Further, the proposal (a) refers to the revised UNFPA oversight policy approved by the Executive Board in January 2015, after the last amendment of the terms of reference; (b) more clearly reflects, and clarifies the interactions that the Committee has with some offices or new internal bodies, e.g. the Ethics Office, the Evaluation Office, the vendor sanction committee; (c) incorporates the changed role regarding the Committee's involvement in the financial statements review. The wording was also amended to provide additional clarity, where necessary. The proposed changes were reviewed by the Legal Advisor, and the Executive Director approved the revised terms of reference on 26 January

2018, in line with paragraph 60 of the revised UNFPA oversight policy. In turn, the name change of the Committee will be reflected in the next proposed amendment of the oversight policy to the Executive Board.

6. *Reporting*. The Committee prepared minutes for each of its meetings, provided advice based on the deliberations, and briefed the Executive Director, former and present, as well as the Acting Executive Director, on the outcome of the meetings.

7. *Recommendations*. The Committee made recommendations and suggestions to UNFPA management during its meetings and followed up on the implementation thereof.

8. *Annual assessment of the effectiveness of the Committee*. The Committee did not undertake an annual assessment of its effectiveness in 2017, in view of its entirely new composition. The annual self-assessment will be carried out in 2018.

## III. Key Messages and Challenges

9. In light of recent reports concerning sexual exploitation in international aid organizations, the Committee wishes to draw attention to the urgent need for UNFPA to have adequate resources to investigate allegations of sexual exploitation and abuse. For example, the report *Voices from Syria 2018*, presenting the assessment on gender-based violence in the country, raises concerns that aid was being exchanged for sex in some parts of the country. On a general note, the possibility of abuse always exists, and UNFPA beneficiaries as well as its donors and stakeholders deserve assurances that the organization has taken effective measures to combat sexual exploitation and more broadly to honour its commitment to provide protection from sexual exploitation and abuse.

10. The Committee is aware that 2017 had been an extremely challenging year for UNFPA. The untimely demise of the former, highly respected Executive Director, Dr. Babatunde Osotimehin, coinciding with the comprehensive United Nations reform agenda of the Secretary-General, as well as the decision by a Member State (the United States of America) to de-fund the organization, put an inordinate amount of strain on the fund. In this difficult situation, the Committee acknowledges and commends the organization for the approval of its strategic plan and its integrated budget for 2018-2021, by the Executive Board at its second regular session in September 2017, and the way the organization has continued to deliver on its mandate.

11. *Funding situation*. In this context, UNFPA has made commendable efforts to address the overall funding situation and to strike an optimal balance between core and non-core funding. The UNFPA management paper on "The Case for Core" is a good attempt to mobilize more core funding while, at the same time, maintaining its resource mobilization strategy to seek new donor funds, including from the private sector and civil society.

12. *Change management*. The Committee followed the progress made on the comprehensive resources review and appreciated the detailed briefings thereon provided by the Deputy Executive Director, Management at each meeting of the Committee. The Committee recognizes the challenges in finding ways to achieve greater efficiency and effectiveness. At the end of the year, the Committee was yet to have the opportunity to review the final outcome of the comprehensive resources review – to which it looked forward – including what impact the broader United Nations reform initiative of the Secretary General would have on UNFPA efforts. The Committee noted that UNFPA management had set up a change management steering committee to coordinate all change-related efforts and activities, including the Secretary General's reform agenda, so as to achieve maximum benefits and avoid duplication of efforts. The Committee will continue to closely review this coordination and efforts in 2018.

13. *Information and communication technology (ICT)*. The Committee is aware of the vulnerability of an aging, no longer fit-for-purpose ICT environment that presents a major risk to UNFPA. This affects both the organization's ability to adequately manage information and business processes, as well as its capacity to respond to incidents and to the increasing threat of cyberattacks. For this reason, the Committee supported the

organization's decision to include in its proposed integrated budget 2018-2021, the necessary funds for a comprehensive ICT transformation.

14. *Harmonized approach to cash transfers (HACT) framework*. The Committee welcomed the framework and noted the organization's combined use of HACT audits and spot-checks as a way of addressing the risks associated with the transfer of funds to implementing partners and ensuring proper oversight of the relationship with them. The Committee further noted UNFPA management's "Progress Assessment Report", as well as its increasing reliance on spot-checks and its decision to reduce the number of HACT audits. The Committee is of the view that the cost-effectiveness of the HACT framework and, in particular, of the spot checks, should be reviewed at an appropriate time – the need to address this risk having also been highlighted by the United Nations Board of Auditors.

15. *Enterprise risk management (ERM) system, internal control framework, and accountability framework*. These three interrelated areas will continue to be high priority for the Committee. In 2017, the Committee took note of the fact that in implementing the ERM system, management had developed a corporate risk register and improved the documentation of the risk response. The Committee noted that in the last quarter of the year, the risk response groups reviewed all business units' action points with a view to building a library accessible to all risk managers that would evolve into a more customised risk assessment. The Committee considers it imperative that the organization continues these efforts to fully implement the ERM system and to ensure its integration into the internal control framework.

16. Regarding the internal control framework, the Committee was kept abreast of progress made to take stock of business processes and mapping of the second line of defence. The Committee noted that all draft new or revised policies include a section on risk and corresponding controls. The Committee noted the inclusion of an accountability for results framework in the strategic plan, 2018-2021, and continues to recommend that the UNFPA update its 2007 overall accountability framework.

17. *Office of Audit and Investigation Services (OAIS)*. The Committee wishes to call attention to the risks associated with the high vacancy rates for both audit and investigation functions and the very long lead times in filling vacancies. Despite these constraints, the Committee recognized and commended the efforts and achievements of OAIS, as evidenced by the progress made in completing its internal audit and investigation workplans for 2017. The Committee wishes to call attention to the heightened fiduciary and reputational risk to UNFPA resulting from mismatched expectations and resources. The Committee is of the view that the resource limitations of the internal audit and investigation services should be addressed on an urgent basis.

18. *Audit monitoring committee*. The Committee acknowledges that the audit monitoring committee is an excellent vehicle for ensuring timely implementation of outstanding audit recommendations. The Committee urges the audit monitoring committee to continue its efforts, especially as concerns those recommendations addressing high-risk activities.

19. *Evaluation function*. The evaluation function is another cornerstone of the Executive Director's fiduciary oversight responsibilities. The Committee met with the newly appointed Director of the Evaluation Office who presented (a) the progress made against the workplan 2016-2019, as well as (b) the draft evaluation plan 2018-2021 – aligned with the UNFPA strategic plan, 2018-2021 – presented to the Executive Board at its first regular session in 2018. The Committee noted that several programme-level evaluations had been cancelled in 2016 for various reasons, and expressed hope that progress would get back on track. The Committee was informed that an external peer review of the evaluation function would be completed in 2018.

20. *Financial statements and reporting*. The Division for Management Services presented to the Committee the draft UNFPA financial statements and reporting for the year ended 31 December 2016, prepared in accordance with the International Public Sector Accounting Standards (IPSAS). The Committee's opinion was that the preparation of the financial statements and reporting by the Division for Management Services is at a high level of professionalism; it has become a standardized process, with adequate controls,

sound analysis of accounts, and proper follow-up with field offices and other business units.

21. *Vendor review committee.* The vendor review committee is an internal technical administrative body established to make recommendations on possible sanctioning of vendors to the Chief Procurement Officer, who is responsible for the final vendor sanctions decisions. The Committee was briefed on the second-year activities of the vendor review committee. The Committee reiterates its 2016 recommendations to increase the relevance of this body to the entire organization: (a) that the vendor review committee produce an annual report, summarizing its work and including improvements to the procurement process based on lessons learned; and (b) that the membership be expanded with one or more persons external to UNFPA.

22. *United Nations Board of Auditors.* The Committee meet regularly with representatives of the Board of Auditors to discuss (a) the workplans of the Board of Auditors; (b) internal controls; and (c) matters raised by the Board of Auditors. The Committee noted that the Board of Auditors had given an unqualified opinion on the financial statements for 2016 and that it had raised a number of control issues. The Committee also noted that continued efforts are required by management to expedite implementation of the outstanding recommendations of the Board of Auditors.

23. *Ethics office.* In its June 2017 meeting, the Committee had a private meeting with the UNFPA Ethics Adviser. The Committee supports the ethics function in UNFPA, which fosters a culture of integrity and accountability. The Committee is of the view that the ethics function is particularly critical to support the organization's efforts to eradicate sexual exploitation and abuse. The Committee noted the continuous support and importance placed on the ethics function by the Executive Director and the senior management of UNFPA.

## IV. Conclusion

24. In 2018, the Committee will continue to follow closely:

(a) The several change initiatives undertaken by the organization as well as the implementation of the United Nations reform launched by the Secretary General;

(b) The UNFPA funding situation;

(c) Further development of enterprise risk management and the linkages between enterprise risk management, the internal control framework and the accountability framework;

(d) The implementation of the HACT framework;

(e) The risks related to information and communication technology, including the ICT transformation;

(f) Developments in addressing sexual exploitation and abuse as well as sexual harassment; including investigation of allegations thereof;

(g) Progress and completion status of the annual workplans of the evaluation function and of OAIS; and

(h) The implementation of audit recommendations.

25. The Committee wishes to thank the Executive Director, the Deputy Executive Directors and senior staff, the staff of OAIS and of the Evaluation Office, the Board of Auditors and other UNFPA management and staff who participated actively in the Committee's activities and cooperated with the Committee in discharging its responsibilities.